

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

JASPER COUNTY HOSPITAL
A COMPONENT UNIT OF
JASPER COUNTY, INDIANA

January 1, 2011 to December 31, 2011



FILED
07/23/2012

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Hospital Officials	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	5-6
Management's Discussion and Analysis	7-9
Basic Financial Statements:	
Statement of Net Assets	10
Statement of Revenues, Expenses, and Changes in Net Assets	11
Statement of Cash Flows – Restricted and Unrestricted Funds	12
Notes to Financial Statements	13-25
Audit Result and Comment:	
Penalties, Interest, and Other Charges	26
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	28-29
Schedule of Expenditures of Federal Awards	30
Notes to Schedule of Expenditures of Federal Awards	31
Schedule of Findings and Questioned Costs	32
Auditee Prepared Schedule:	
Summary Schedule of Prior Audit Findings	33
Exit Conference	34
Official Response	35

HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
President/CEO	Timothy M. Schreeg	01-01-11 to 12-31-12
Treasurer	Jeffrey D. Webb	01-01-11 to 12-31-12
Chairman of the Hospital Board	Bruce Wood Rick Odle	01-01-11 to 12-31-11 01-01-12 to 12-31-12
President of the Board of County Commissioners	Kendell Culp	01-01-11 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

TO: THE OFFICIALS OF THE JASPER COUNTY HOSPITAL, JASPER COUNTY, INDIANA

We have audited the accompanying basic financial statements of the business-type activities, and the discretely presented component unit of the Jasper County Hospital (Hospital) as of and for the year ended December 31, 2011, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital and its discretely presented component unit as of December 31, 2011, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated June 13, 2012, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

The Management's Discussion and Analysis as listed in the Table of Contents is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Hospital's response to the Audit Result and Comment identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

June 13, 2012



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF JASPER COUNTY HOSPITAL, JASPER COUNTY, INDIANA

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Jasper County Hospital (Hospital), as of and for the year ended December 31, 2011, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated June 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Hospital's response to the finding identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Hospital's management, Hospital's Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 13, 2012

Management's Discussion and Analysis

Our discussion and analysis of Jasper County Hospital's (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the Hospital's financial statements and accompanying notes to the financial statements.

Using This Annual Report

This annual report consists of two parts--*management's discussion and analysis*, and the *basic financial statements*.

- In the "*management discussion and analysis*" section of this report the management of the hospital discuss various components of the annual report and provide an analysis of the current financial statement information.
- The "*basic financial statement*" section of this report includes a series of financial statements which provide information about the activities of the Hospital as a whole. The Statement of Net Assets reveals the assets and liabilities of the Hospital on December 31, 2011 while the Statement of Revenues, Expenses and Changes in Net Assets summarizes the changes in the assets and liabilities for the year then ended. The Statement of Cash Flows summarizes the change in cash and cash equivalents as a result of the financial activity during the year. The Notes to the Financial Statements disclose additional information addressed within the body of the financial statements.

Financial Highlights

The Hospital's net assets decreased by \$1,666,507 or 11% as a result of this year's operations. Net Patient Service Revenue decreased by \$214,855 or less than 1% while total operating expenses increased by \$224,714 or less than 1%.

Summarized Financial Statement Information

The following information documents in summary form the financial information related to the activities of the hospital for the last 2 years:

	<u>2011</u>	<u>2010</u>
Current Assets	9,748,165	9,691,618
Assets limited as to use	2,483,878	2,569,855
Capital assets	19,111,409	12,834,686
Other Assets	<u>366,562</u>	<u>380,937</u>
Total Assets	<u>31,710,014</u>	<u>25,477,096</u>
Current Liabilities	4,575,212	3,642,759
Long-term debt, net of current maturities	<u>13,135,217</u>	<u>6,168,245</u>
Total Liabilities	<u>17,710,429</u>	<u>9,811,004</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	5,766,637	6,636,213
Restricted	1,602,575	1,889,322
Unrestricted	<u>6,630,373</u>	<u>7,140,557</u>
Total Net Assets	<u>13,999,585</u>	<u>15,666,092</u>

Changes in Net Assets

	<u>2011</u>	<u>2010</u>
Revenue		
Net patient service revenue	27,902,252	28,117,107
Other Revenues	5,809,481	4,231,884
Other Nonoperating Income/(Loss)	<u>(333,948)</u>	<u>(113,766)</u>
Total Revenues	<u>33,377,785</u>	<u>32,235,225</u>
Expenses:		
Salaries and Benefits	21,764,886	21,894,799
Medical Professional Fees	3,060,541	3,286,544
Other Professional Fees	790,435	852,814
Medical supplies and drugs	3,921,818	4,473,163
Other supplies	980,587	878,139
Insurance	560,634	596,810
Depreciation and amortization	623,692	423,807
Other	<u>3,454,778</u>	<u>2,526,471</u>
Total Expenses	<u>35,157,371</u>	<u>34,932,547</u>
Excess of revenues over expenses before contributions	(1,779,586)	(2,697,322)
Capital grants and contributions	148,413	152,988
Prior Period Adjustment	<u>(35,334)</u>	<u>--</u>
Increase (Decrease) in Net Assets	<u>(1,666,507)</u>	<u>(2,544,334)</u>

Capital Assets and Debt Administration

Capital assets

At the end of the fiscal year ended December 31, 2011 the Hospital had approximately \$19,111,409 invested in capital assets. The table below documents the type of assets that makeup of the Capital Assets held by the Hospital as of December 31, 2011.

Capital Assets at Year-end Net of Depreciation

	<u>2011</u>	<u>2010</u>
Land	53,965	53,965
Land Improvements	1,859,740	1,844,495
Buildings	17,748,721	8,131,062
Construction In Progress	3,236,853	6,777,579
Equipment	<u>5,952,581</u>	<u>5,292,316</u>
Total	28,851,860	22,099,417
Less Accumulated Depreciation	<u>9,740,451</u>	<u>9,264,731</u>
Capital Assets (Net)	<u>19,111,409</u>	<u>12,834,686</u>

More detailed information related to the Hospital's capital assets can be obtained by reviewing the notes to the financial statements.

Debt

At year-end the Hospital had approximately \$13,344,772 in loans and capital leases outstanding, versus

\$6,277,034 at the end of the previous year which represents an increase of 114%. The table below documents the debt held and its use:

Outstanding Debt at Year End

	<u>2011</u>	<u>2010</u>
Insurance Premium Financing	--	78,557
Automobile Financing	2,403	6,302
Construction/renovation	13,187,129	6,104,178
Capital Leases	<u>155,240</u>	<u>87,997</u>
Total Debt	13,344,772	6,227,034

More detailed information related to the Hospital's debt can be obtained by reviewing the notes to the financial statements.

During 2011, the Hospital continued construction on the final phase of an addition/renovation project. At December 31, 2011, the project is nearing completion. Finalization is expected within the first week of May 2012. The Hospital has financed the project through the U.S. Department of Agriculture, Office of Rural Development in the form of a 40 year, \$15 million loan.

Contacting the Hospital's Management

This financial report is designed to provide our citizens, taxpayers, patients, and other interested parties with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Administrative offices at 1104 East Grace Street, Rensselaer, IN 47978.

JASPER COUNTY HOSPITAL
A COMPONENT UNIT OF JASPER COUNTY, STATE OF INDIANA
STATEMENT OF NET ASSETS
December 31, 2011

<u>Assets</u>	<u>Primary Government</u>	<u>Discrete Component Unit</u>	<u>Total Reporting Entity</u>
Current assets:			
Cash and cash equivalents	\$ 2,014,295	\$ 316,657	\$ 2,330,952
Short-term investments	-	539,005	539,005
Patient accounts receivable, net of estimated uncollectibles of \$2,619,010	5,594,492	-	5,594,492
Supplies and other current assets	1,283,716	-	1,283,716
Noncurrent cash and investments:			
Internally designated	1,691,409	-	1,691,409
Reserved by debt agreement	792,469	-	792,469
Capital assets:			
Land and construction work in progress	3,290,818	-	3,290,818
Depreciable capital assets, net of accumulated depreciation	15,820,591	-	15,820,591
Other assets	<u>366,562</u>	<u>-</u>	<u>366,562</u>
Total assets	<u>\$ 30,854,352</u>	<u>\$ 855,662</u>	<u>\$ 31,710,014</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Current maturities of long-term debt	\$ 209,555	\$ -	\$ 209,555
Accounts payable and accrued expenses	3,415,773	-	3,415,773
Estimated third-party payor settlements	200,000	-	200,000
Other current liabilities	749,884	-	749,884
Long-term debt, net of current maturities	<u>13,135,217</u>	<u>-</u>	<u>13,135,217</u>
Total liabilities	<u>17,710,429</u>	<u>-</u>	<u>17,710,429</u>
Net assets:			
Invested in capital assets, net of related debt	5,766,637	-	5,766,637
Restricted:			
Expendable for capital acquisitions	190,654	-	190,654
Expendable for debt service	792,425	-	792,425
Expendable for specific operating activities	619,496	-	619,496
Unrestricted	<u>5,774,711</u>	<u>855,662</u>	<u>6,630,373</u>
Total net assets	<u>13,143,923</u>	<u>855,662</u>	<u>13,999,585</u>
Total liabilities and net assets	<u>\$ 30,854,352</u>	<u>\$ 855,662</u>	<u>\$ 31,710,014</u>

The accompanying notes are an integral part of the financial statements.

JASPER COUNTY HOSPITAL
A COMPONENT UNIT OF JASPER COUNTY, STATE OF INDIANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2011

	Primary Government	Discrete Component Unit	Total Reporting Entity
Operating revenues:			
Net patient service revenue (net of provision for bad debt)	\$ 27,902,252	\$ -	\$ 27,902,252
Other	<u>5,331,872</u>	<u>477,609</u>	<u>5,809,481</u>
Total operating revenues	<u>33,234,124</u>	<u>477,609</u>	<u>33,711,733</u>
Operating expenses:			
Salaries and benefits	21,764,886	-	21,764,886
Medical professional fees	3,060,541	-	3,060,541
Other professional fees	790,435	-	790,435
Medical supplies and drugs	3,921,818	-	3,921,818
Insurance	560,634	-	560,634
Other supplies	980,587	-	980,587
Depreciation and amortization	623,692	-	623,692
Other	<u>2,986,306</u>	<u>468,472</u>	<u>3,454,778</u>
Total operating expenses	<u>34,688,899</u>	<u>468,472</u>	<u>35,157,371</u>
Operating income (loss)	<u>(1,454,775)</u>	<u>9,137</u>	<u>(1,445,638)</u>
Nonoperating revenues (expenses):			
Investment income	11,032	-	11,032
Interest expense	(292,880)	-	(292,880)
Restricted fund non-operating revenue (expense)	(39,974)	-	(39,974)
Gain (loss) on sale of equipment	1,614	-	1,614
Other	<u>-</u>	<u>(13,740)</u>	<u>(13,740)</u>
Total nonoperating expenses	<u>(320,208)</u>	<u>(13,740)</u>	<u>(333,948)</u>
Deficiency of revenues under expenses before capital grants and contributions and special and extraordinary items	<u>(1,774,983)</u>	<u>(4,603)</u>	<u>(1,779,586)</u>
Capital grants and contributions	<u>148,413</u>	<u>-</u>	<u>148,413</u>
Decrease in net assets	<u>(1,626,570)</u>	<u>(4,603)</u>	<u>(1,631,173)</u>
Net assets beginning of the year	14,805,827	860,265	15,666,092
Prior period adjustment:			
Correction of accumulated depreciation (Note III. C.)	<u>(35,334)</u>	<u>-</u>	<u>(35,334)</u>
Restated net assets beginning of the year	<u>14,770,493</u>	<u>860,265</u>	<u>15,630,758</u>
Net assets end of the year	<u>\$ 13,143,923</u>	<u>\$ 855,662</u>	<u>\$ 13,999,585</u>

The accompanying notes are an integral part of the financial statements.

JASPER COUNTY HOSPITAL
A COMPONENT UNIT OF JASPER COUNTY, STATE OF INDIANA
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2011

	<u>2011</u>
Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 26,768,565
Payments to suppliers and contractors	(11,572,383)
Payments to employees	(21,718,499)
Other receipts and payments, net	<u>6,228,195</u>
Net cash used by operating activities	<u>(294,122)</u>
Cash flows from noncapital financing activities:	
Other	<u>(53,714)</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	148,413
Acquisition and construction of capital assets	(8,286,877)
Proceeds from loan payable	7,243,309
Proceeds from sale of capital assets	1,469,067
Principal paid on long-term debt	(277,519)
Interest paid on long-term debt	<u>(316,571)</u>
Net cash used by capital and related financing activities	<u>(20,178)</u>
Cash flows from investing activities:	
Interest and dividends on investments	28,503
Purchase of investments	<u>11,032</u>
Net cash provided by investing activities	<u>39,535</u>
Net decrease in cash and cash equivalents	(328,479)
Cash and cash equivalents at beginning of year	<u>5,143,309</u>
Cash and cash equivalents at end of year	<u><u>\$ 4,814,830</u></u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 2,330,952
Restricted cash and cash equivalents	<u>2,483,878</u>
Total Cash and Cash Equivalents	<u><u>\$ 4,814,830</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,445,638)
Adjustments to reconcile operating loss to net cash flows used in operating activities:	
Depreciation and amortization	623,692
Increase in current assets:	
Patient accounts receivable	(283,142)
Supplies and other current assets	(44,409)
Increase in current liabilities:	
Accounts payable and accrued expenses	812,392
Other current liabilities	<u>42,983</u>
Net cash used in operating activities	<u><u>\$ (294,122)</u></u>
Capital Assets acquired through the capitalization of Interest Expense	\$ 144,240
Capital Assets acquired through the assumption of Debt	101,951
Amortization included in Depreciation and Amortization Expense	14,375

The accompanying notes are an integral part of the financial statements.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Jasper County Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Jasper County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Jasper County.

On January 8, 1982, the Board of County Commissioners of Jasper County, upon written request of the Hospital Board of Trustees created the Jasper County Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component units. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities, are, in substance, part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government. Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the basic financial statements to emphasize that it is legally separate from the Hospital.

Discretely Presented Component Units

The Jasper County Hospital Foundation is a significant component unit of the Hospital. It would be misleading to exclude the Foundation from the Hospital's financial statements because of its relationship with the Hospital.

The financial statements of the Foundation may be obtained at its Treasurer's office at 1104 East Grace Street, Rensselaer, Indiana 47978.

Separate audit reports are not prepared for the individual component units.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Hospital has elected not to follow subsequent private-sector guidance.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

Short-term investments are investments with remaining maturities of up to 90 days.

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land improvements	\$ 2,500	Straight-line	20 years
Buildings and improvements	2,500	Straight-line	40 years
Equipment	2,500	Straight-line	5-10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Hospital during the current year was \$437,120. Of the amount, \$144,240 was included as part of the cost of capital assets under construction in connection with new medical facilities and various other renovation projects.

4. Net Assets

Net assets of the Hospital are classified in three components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, contributors, or enabling legislation external to the hospital. The financial statements report \$1,602,575 of restricted assets, of which \$180,583 is restricted by enabling legislation.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

D. Grants and Contributions

From time to time, the Hospital receives grants from Jasper County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds.

F. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

G. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

H. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

I. Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis.

J. Supplies

Inventories of drugs and other supplies are stated at the lower of cost (first-in, first-out) or market.

K. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off, at a rate of 4.66 to 10.31 hours per pay period.

Part-time employees earn paid hours off at a rate of 5 percent of their hours paid including overtime, but excluding on-call time, after a minimum of 600 hours are worked during their benefit year.

The Hospital accounts for accrued compensated absences on a per payroll basis, computed at current wage rates, and the financial statements recognize their liability. The Hospital pays accumulated paid hours off upon employee termination.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

L. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the Statement of Net Assets for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the Statement of Net Assets is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the Statement of Net Assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the Statement of Net Assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the Statement of Net Assets for estimated third-party payor settlements approximates its fair value.

Long Term Debt

Fair values of the Hospital's revenue notes are based on current traded value.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 allows a Hospital Governing Board to deposit public funds in a financial institution. The Hospital does not have a deposit policy for custodial credit risk. At December 31, 2011, the Hospital had deposit balances in the amount of \$5,550,867.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2011, the Hospital and the Hospital Foundation had the following investments:

Investment Type	Hospital Foundation Market Value
Mutual bond funds	\$ 539,005
Total	\$ 539,005

Statutory Authorization for Investments

Indiana Code 16-22-3-20 authorizes the Hospital to invest in:

Any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective.

Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Hospital does not have a formal investment policy for custodial credit risk for investments.

The Hospital Foundation has not adopted an investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy for interest rate risk for investments.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Hospital Foundation has not adopted a formal investment policy for interest rate risk.

Investment Type	Investment Maturities (in Years)			
	Less Than 1	1-5	6-10	More Than 10
Mutual bond funds	\$ 539,005	\$ -	\$ -	\$ -

Investment Type	Investment Maturities (in Years)			
	Less Than 1	1-5	6-10	More Than 10
U.S. treasuries and securities	\$ -	\$ -	\$ -	\$ -
U.S. agencies	-	-	-	-
Mutual bond funds	-	-	-	-
Corporate bonds	-	-	-	-
Government sponsored enterprises	-	-	-	-
Investment pools	-	-	-	-
Totals	\$ -	\$ -	\$ -	\$ -

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal investment policy for credit risk for investments.

The Hospital Foundation has not adopted a policy for credit risk.

Standard and Poor's Rating	Moody's Rating	Hospital Foundation's Investments			
		Mutual Funds	Corporate Bonds	Government Sponsored Enterprise	Investment Pools
AAA	Aaa	\$ -	\$ -	\$ -	\$ -
AA	Aa	-	-	-	-
A	A	-	-	-	-
BBB	Baa	-	-	-	-
BB	Ba	-	-	-	-
B	B	-	-	-	-
CCC	Caa	-	-	-	-
Unrated	Unrated	539,500	-	-	-
Totals		\$ 539,500	\$ -	\$ -	\$ -

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Hospital does not have a policy in regard to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

The Hospital Foundation has not adopted a policy for the concentration of credit risk.

Foreign Currency Risk

The Hospital does not have a formal policy in regard to foreign currency risk.

The Hospital Foundation has not adopted a formal policy in regard to foreign currency risk.

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 5,876,732
Receivable from Medicare	1,802,176
Receivable from Medicaid	<u>534,594</u>
Total patient accounts receivable	8,213,502
Less allowance for uncollectible amounts	<u>2,619,010</u>
Patient accounts receivable, net	<u><u>\$ 5,594,492</u></u>

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 1,873,267
Payable to suppliers	981,221
Other	<u>561,285</u>
Total accounts payable and accrued expenses	<u><u>\$ 3,415,773</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 53,965	\$ -	\$ -	\$ 53,965
Construction in progress	6,777,579	7,323,579	10,864,305	3,236,853
Total capital assets, not being depreciated	6,831,544	7,323,579	10,864,305	3,290,818
Capital assets, being depreciated:				
Land improvements	1,844,495	15,245	-	1,859,740
Buildings and improvements	8,131,062	9,617,659	-	17,748,721
Equipment	5,292,315	2,505,964	1,845,698	5,952,581
Totals	15,267,872	12,138,868	1,845,698	25,561,042
Less accumulated depreciation for:				
Land improvements	389,337	8,478	-	397,815
Buildings and improvements	4,918,124	302,159	-	5,220,283
Equipment	3,957,270	334,014	168,931	4,122,353
Totals	9,264,731	644,651	168,931	9,740,451
Total capital assets, being depreciated, net	6,003,141	11,494,217	1,676,767	15,820,591
Total primary government capital assets, net	\$ 12,834,685	\$ 18,817,796	\$ 12,541,072	\$ 19,111,409

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Expended to December 31, 2011</u>	<u>Committed</u>
Addition/renovation	\$ 13,187,129	\$ 13,784,837

E. Leases

1. Operating Leases

The Hospital has entered into various operating leases having initial or remaining non-cancelable terms exceeding one year for equipment. Rental expenditures for these leases were \$560,212. The following is a schedule by years of future minimum rental payments as of year-end:

2012	\$ 676,153
2013	564,022
2014	484,656
2015	116,133
2016	48,596
Total	\$ 1,889,560

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Capital Leases

The Hospital has entered into various capital leases for equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of year-end are as follows:

2012	\$ 52,231
2013	45,903
2014	45,903
2015	33,587
2016	<u>-</u>
Total minimum lease payments	177,624
Less amount representing interest	<u>22,383</u>
Present value of net minimum lease payments	<u>\$ 155,241</u>

Assets acquired through capital leases still in effect are as follows:

Equipment	\$ 197,951
Accumulated depreciation	<u>(27,695)</u>
Total	<u>\$ 170,256</u>

F. Long-Term Liabilities

1. Notes Payable

The Hospital has entered into various notes. Annual debt service requirements to maturity for the notes, including interest of \$55, are as follows:

2012	<u>\$ 2,458</u>
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During 2010, the Hospital entered into a long-term debt arrangement with the United States Department of Agriculture in order to finance a construction/renovation project. Construction is expected to be completed in May 2012 with a final loan amount totaling \$15,000,000. The term of the loan is 40 years at an interest rate of 4.125 percent. During construction, semiannual interest only payments will be made in February and August. Once construction is complete, semiannual principal and interest payments will be due in February and August of each year. Annual debt service requirements are estimated at \$785,000.

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases	\$ 87,996	\$ 101,951	\$ 34,706	\$ 155,241	\$ 43,152
Loans payable	<u>6,189,035</u>	<u>7,243,309</u>	<u>242,813</u>	<u>13,189,531</u>	<u>166,403</u>
Total long-term liabilities	<u>\$ 6,277,031</u>	<u>\$ 7,345,260</u>	<u>\$ 277,519</u>	<u>\$ 13,344,772</u>	<u>\$ 209,555</u>

G. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

1. Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

2. Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 45 percent and 13 percent, respectively, of the Hospital's net patient revenue for the year ended 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, HMO's, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

H. Charity Care

Charges removed from net revenue under the Hospital's charity care policy were \$148,378 for 2011.

I. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Capital Improvement Funds – Funds designated by the Hospital Board of Trustees for construction and other capital improvement.
2. Designated Funds – Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Internally designated:

Capital improvement:

Cash and cash equivalents	\$ 190,654
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Board designation:

Cash and cash equivalents	<u>1,500,755</u>
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Total internally designated	<u><u>\$ 1,691,409</u></u>
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J. Sale of Home Medical Equipment

On January 31, 2011, The Hospital sold its Durable Medical Equipment business to Fairmeadows Home Health Center, Inc., of Schererville, Indiana. The Hospital maintained ownership of all fixed assets associated with the department. The Hospital also maintained ownership of the Accounts Receivable of the department as of January 31, 2011.

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Medical Benefits To Employees

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees. An excess policy through commercial insurance covers individual claims in excess of \$70,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors.

JASPER COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

	2010	2011
Unpaid claims, beginning of fiscal year	\$ 320,330	\$ 342,169
Incurred claims and changes in estimates	2,971,607	2,869,635
Claim payments	<u>(2,949,768)</u>	<u>(2,850,223)</u>
Unpaid claims, end of fiscal year	<u>\$ 342,169</u>	<u>\$ 361,581</u>

B. Pension Plan

Defined Contribution Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by Lincoln Financial Group as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established and can be amended by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting: Lincoln Financial Group, 1300 South Clinton Street, Fort Wayne, IN 46801, Ph. 800-454-6265.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established and can be amended by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are not required to contribute to the plan. The Hospital is required to contribute 2 1/2 percent of an employee's first \$50,000 in wages and 5 percent on all wages above \$50,000. Employer contributions to the plan of \$358,043 for 2011 and \$359,589 for 2010 were accrued at year end.

C. Prior Period Adjustment

During 2011, the Hospital became aware of the fact that depreciation expense on its new administrative office building had not been taken during the year 2010. The building was included on their capital asset listing, but depreciation expense had not been calculated on it. This error was corrected in 2011, as reflected by a prior period adjustment to Beginning Net Assets on the Statement of Revenues, Expenses, and Changes in Net Assets.

JASPER COUNTY HOSPITAL
AUDIT RESULT AND COMMENT

PENALTIES, INTEREST, AND OTHER CHARGES

In some cases, amounts payable to vendors and other suppliers of goods and services are not paid until weeks after the dates payments are due. For the calendar year ending December 31, 2011, a total of \$37,423.52 in late fees were incurred by the Hospital as a result of this practice. The effective annual interest rate paid as a result of these late payments was approximately 18 percent. Penalties and interest were also incurred and paid in the prior audit period. A comment related to this practice was included in the Audit Results and Comments section of the prior Report B38687.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE JASPER COUNTY HOSPITAL, JASPER COUNTY, INDIANA

Compliance

We have audited the compliance of the Jasper County Hospital (Hospital) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Hospital's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

In our opinion, the Hospital complied in all material respects with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A deficiency in a Hospital's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is more than a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designated to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Hospital's response to the finding identified in our audit is described in the accompanying section of the report entitled Official's Response. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Hospital's management, Hospital's Board, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 13, 2012

JASPER COUNTY HOSPITAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2011

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Direct Loan			
ARRA - Community Facilities Loans and Grants	10.780		\$ 7,087,951
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Pass-Through Indiana Criminal Justice Institute			
Crime Victim Assistance	16.575		22,368
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana State Department of Health			
Small Rural Hospital Improvement Grant Program	93.301		11,764
Pass-Through Indiana Department of Homeland Security			
National Bioterrorism Hospital Preparedness Program	93.889		14,875
Total for federal grantor agency			26,639
Total federal awards expended			\$ 7,136,958

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

JASPER COUNTY HOSPITAL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Jasper County Hospital (Hospital) and is presented in conformity with accounting principles generally accepted in the United States of America which is the basis of accounting used in the presentation of the financial statements. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Loans Outstanding

The Hospital had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2011. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	Loans Outstanding
Community Facilities Loans and Grants	10.780	<u>\$ 13,187,129</u>

JASPER COUNTY HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies?	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	no

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.780	ARRA - Community Facilities Loans and Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

JASPER COUNTY HOSPITAL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

JASPER COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on June 13, 2012, with Bruce Wood, Board member; Matt Robertson, Board member; Timothy M. Schreeg, President/CEO; and Jeffrey D. Webb, Treasurer. The Official Response has been made a part of this report and may be found on page 35.



June 13, 2012

Indiana State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765

RE: Official Response

Please accept this correspondence as Jasper County Hospital's official response to the audit result and comment included as part of this audit report for the year ended December 31, 2011.

The audit result and comment in question pertains to late fees paid by the Hospital for payments remitted to vendors after the invoice due date. Providing healthcare in a small, rural community presents various challenges, not the least of which is timely cash flow. Restrictions on operating cash flows periodically give rise to situations in which the Hospital must choose how to most appropriately and diligently allocate limited resources. In situations such as these, the Hospital has made a business decision to occasionally incur vendor late fees rather than take on additional debt in order to supplement these limited cash flows. While vendor late fees are obviously not ideal, principal and interest payments to a lender for a line of credit, especially when cash flow issues are not short term, are not either.

While we appreciate the intent of the compliance regulation that supports the audit comment, the Hospital questions whether the regulation should apply to an entity that neither receives tax revenue for operations, nor maintains a government-style budget with fixed revenues and corresponding budgeted disbursements. In fact, we have supplied a letter by the Hospital attorney in which it is pointed out that there does not appear to be any statute that prohibits the Hospital from handling its shortage of cash flow in the manner we have chosen.

Thank you for the opportunity to share our difference of opinion on this matter.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jeffrey D. Webb", is written over a light blue horizontal line.

Jeffrey D. Webb, C.P.A.
Vice President of Financial Services